

**ROYAL WATER DISTRICT**  
**Grant County, Washington**  
**January 1, 1991 Through December 31, 1993**

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**Schedule Of Findings**

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1. Commissioner Gunter Should Make Timely Payments On His Water Account

Commissioner Garth Gunter is not making timely payments on his water account. At the time of our audit, his account was approximately 53 months delinquent.

We noted in our prior audit finding that as of June 6, 1991, Commissioner Gunter owed the district \$829.91. This consisted of \$485.84 in regular water charges through that date and \$344.07 in excess water charges from 1989. As of July 27, 1994, Commissioner Gunter owed \$1,554.91 which consists of \$1,210.84 in regular water charges through this date and \$344.07 in excess water charges still unpaid from 1989. Commissioner Gunter made two payments on this account during the audit period, \$100 on September 1, 1992, and \$100 on February 27, 1993.

RCW 57.08.080 states:

The commissioners shall enforce collection of the water connection charges and rates and charges for water supplied against property owners connecting with the system and/or receiving such water, such charges being deemed charges against the property served, by addition of penalties of not more than ten percent thereof in case of failure to pay the charges at times fixed by resolution. The commissioners may provide by resolution that where either water connection charges or rates and charges for water supplied are delinquent for any specified period of time, the district shall certify the delinquencies to the treasurer of the county in which the real property is located, and the charges and any penalties added thereto and interest thereon at the rate of not more than eight percent per year shall be a lien against the property upon which the service was received, subject only to the lien for general taxes

RCW 42.20.010 Misconduct of public officer, states in part:

Every public officer who shall:

(1) ask or receive, directly or indirectly, any compensation, gratuity, or reward, or promise thereof, for omitting or deferring the performance of any official duty . . . Shall be guilty of a gross misdemeanor . . .

RCW 42.21.030 Prohibited practices - Using position to secure special privileges or exemptions, states in part:

No public official shall use his position to secure special privileges or exemptions for himself . . .

Commissioner Gunter's account is the largest unpaid account of the district.

We recommend that the Washington State Office of the Attorney General and the Grant County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

We also recommend that Commissioner Gunter pay off his account to cure his delinquent status and make the required timely payments on his water account.

2. The District Should Strengthen The System Of Internal Control To Safeguard District Assets

The district has not implemented an effective system of internal control for overall district operations to properly safeguard district assets as recommended in our prior audit. In the previous audit, Commissioner Gunter indicated that the size of the district prevents them from hiring anyone to perform the function associated with billing, cashiering, and posting customer accounts receivable ledger cards. The district recruited a volunteer to perform these procedures from approximately May 1991 through October 1992. The volunteer moved from the area in October 1992 and has not been replaced.

Our audit disclosed the following internal control weaknesses:

a. Cash Receipts

(1) Due to the inadequate segregation of duties between the district commissioners and the actual procedures used to handle cash receipts, the district lost at least \$275 between January 1, 1992 and July 27, 1994. The district wrote receipts for \$275 in currency but did not deposit the cash with the county treasurer.

(2) District receipts could not be located by the district for the period January 1, 1991, through March 30, 1992. As a result, funds from cash receipt transactions could not be properly accounted for by the district.

(3) Commissioner Rookstool was responsible for the cash receipting functions from October 1992 through November 1993. Commissioner Gunter was responsible for the cash receipting functions from January 1994 until the present. There was no periodic review of the work performed by Commissioners Rookstool and Gunter which would accomplish the same objectives as a segregation of duties between two or more employees. Thus, no one independently verified the accuracy of cash collections or the check and cash composition of deposits with the county treasurer to ensure that this information agreed with the actual cash receipt document issued.

(4) Accountability for cash receipts was not established when funds were transferred from the volunteer to Commissioners Rookstoll and Gunter.

(5) Cash receipts were not deposited with the county treasurer promptly or intact. There were no deposits between January 8, 1994, and June 13, 1994.

(6) Cash receipt documents were not always issued at the time cash was received by the district.

(7) The same cash receipt document was occasionally posted to different customer account ledgers.

b. Accounts Receivable

(1) There was no periodic management review of the work performed by Commissioners Rookstool and Gunter which would accomplish the same objective as segregation of duties between two or more employees. Thus, no one independently verified the accuracy of customer billings and customer accounts receivable ledger card postings.

(2) The district has not established an accounts receivable control ledger. We reviewed all ledger cards the district provided. Of the 42 customers reviewed, 17 (40 percent) contained errors. Most of these errors would have been caught if a control ledger was in place. Our review indicates that the district has 33 active accounts as of July 27, 1994, with an accounts receivable balance of approximately \$5,939.84 (net of advance payments of \$347.50).

(3) Customers were not billed for services rendered on a regular basis. On February 1, 1993, the district decided not to send bills anymore. The district notified the users that did not pay the February bill of the new policy. Although some users specifically requested bills (businesses), the district has apparently not billed since September 1, 1993.

(4) The district has not established a policy for delinquent accounts receivable. Therefore, no action has been taken to collect overdue account balances. At the time of our audit, the district's records indicated the following:

(a) As discussed in Finding 1, Commissioner Gunter's account balance was 53 months delinquent. At July 27, 1994, he owed the district \$1,210.84.

(b) The account balances of 15 additional accounts ranged from 4 to 27 months past due.

(c) Some customers have left the district without paying their final bill. However, the district has taken no action to determine whether these outstanding unpaid balances (\$210.50) are collectable, or must be written off as bad debts.

(5) New customer accounts receivable ledger cards were not always prepared when changes in tenants occurred at service locations. The identification data shown on the customer accounts receivable subsidiary ledger cards was often revised without indicating the effective date of change.

(6) Some payments were never recorded on the customer accounts receivable subsidiary ledger cards.

(7) The payment dates recorded on the customer accounts receivable subsidiary ledger cards did not always agree with the dates indicated on actual cash receipt documents.

RCW 57.20.140 states in part:

Unless the board of commissioners of a water district designates a treasurer under RCW 57.20.135, the county treasurer shall create and maintain a separate fund designated as the maintenance fund or general fund of the district into which shall be paid all money received by him from the collection of taxes other than taxes levied for the payment of general obligation bonds of the district and all revenues of the district other than assessments levied in local improvement districts or utility local improvement districts, and no money shall be disbursed therefrom except upon warrants of the county auditor issued by authority of the commissioners or upon a resolution of the commissioners ordering a transfer to any other fund of the district . . . .

RCW 57.08.080 states:

The commissioners shall enforce collection of the water connection charges and rates and charges for water supplied against property owners connecting with the system and/or receiving such water, such charges being deemed charges against the property served, by addition of penalties of not more than ten percent thereof in case of failure to pay the charges at times fixed by resolution. The commissioners may provide by resolution that where either water connection charges or rates and charges for water supplied are delinquent for any specified period of time, the district shall certify the delinquencies to the treasurer of the county in which the real property is located, and the charges and any penalties added thereto and interest thereon at the rate of not more than eight percent per year shall be a lien against the property upon which the service was received, subject only to the lien for general taxes.

RCW 57.08.090 states in part:

The district may, at any time after the connection charges or rates and charges for water supplied and penalties are delinquent for a period of sixty days, bring suit in foreclosure by civil action in the superior court of the county in which the real property is located . . . In addition to the right to foreclose provided in this section, the district may also cut off all or part of the service after charges for water supplied are delinquent for a period of sixty days.

The district has an outstanding loan with Farmers Home Administration. Resolution No. 5 was passed to authorize this loan and establish covenants which the district must follow in order to protect the investment of Farmers Home Administration. This resolution states in part:

E. Collect Revenues It will collect and hold in trust the Revenue of the system and other funds pledged to the payment of the Bond and apply such Revenue of the System or other funds only as provided in this Resolution . . .

M. Delinquencies That it will not furnish water service to any customer whatsoever free of charge, and it shall not later than sixty (60) days after the end of each calendar year, take such legal action as may be reasonable to enforce collection of all collectable delinquent accounts . . . .

We recommend the district:

- a. Review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of district assets.
- b. Comply with all covenants of the Farmers Home Administration loan resolution.
- c. Retain all records in accordance with the required retention policy.

3. The District Should Hold Regular Meetings And Approve The Payment Of Vouchers At These Meetings

The district commissioners could not provide us with minutes of all district meetings. Our review of board minutes showed that the commissioners held three board meetings during the 43 months from January 1991 through July 1994. The minutes of these three meetings did not contain board approval to pay vouchers. Grant county received and processed claims each month during this period.

RCW 42.30.070 states in part:

The governing body of a public agency shall provide the time for holding regular public meetings by ordinance, resolution, bylaws, or by whatever other rule is required for the conduct of business by that body . . . .

RCW 42.32.030 states:

The minutes of all regular and special meetings, except executive sessions of such boards, commissions, agencies or authorities, shall be promptly recorded and such records shall be open to public inspection.

RCW 57.12.010 states in part:

The board shall by resolution adopt rules governing the transaction of its business and shall adopt an official seal. All proceedings shall be by resolution recorded in a book kept for that purpose which shall be a public record.

Furthermore, the *Budgeting, Accounting and Reporting System* for counties, cities and other local governments prescribed by the Washington State Auditor requires that governing body approval to pay claims against the district must be entered in the minutes of the governing body.

Commissioner Gunter said the district did not hold meetings because they did not have any business to discuss.

We recommend that the district hold regular board meetings. We further recommend that the district establish procedures for the proper keeping of minutes.

4. The District Should Prepare Financial Statements As Required By The Bond Covenants Of The Farmers Home Administration Loan

As reported in the prior audit, the district has not furnished Farmers Home Administration with the financial reports required by the district's loan agreement. These reports include information on revenues, expenditures, aging of accounts receivables and current insurance information. Commissioner Gunter again indicated that the reports have not been filed because the forms are too complex to complete. Without this financial information on district operations, the Farmers Home Administration cannot properly monitor the district's compliance with the loan resolution.

Resolution No. 5 was passed to authorize this loan and establish covenants which the district agreed to follow in order to protect the investment of Farmers Home Administration.

This resolution states in part:

L. Accounts That it will keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the System, and it will furnish complete operating and income statements.

We recommend the district:

- a. Comply with all covenants of the Farmers Home Administration loan resolution.
- b. Contact the local office of the Farmers Home Administration for assistance in completing the accounting reports required by the loan resolution.